

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Review, 2012

Docket No. ACR2012

CHAIRMAN'S INFORMATION REQUEST NO. 7

(Issued February 1, 2013)

To clarify the Postal Service's Annual Compliance Report, filed December 28, 2012, the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than February 8, 2013.

International Mail

1. Please refer to the response to CHIR No. 4, question 12, subpart (b). Also, please refer to the series of periodic reports captioned "United States Postal Service Quarterly Update in Response to Order No. 162" (Quarterly Update), applicable to inbound EMS during FY 2012.¹ Each Quarterly Update groups countries entering inbound EMS under two service tiers: Tier 1, consisting of the postal operators of countries with a performance-level agreement, such as EMS Pay-for-Performance Plan participants and Kalaha Posts Group members; and, Tier 2, all other postal operators.
 - a. In the response to subpart (b), the Postal Service states that the "EMS Cooperative Pay-for-Performance Plan was not applicable to the following KPG members: Australia, China, France and Spain."

¹ Quarterly Updates were filed on January 17, 2012; April 2, 2012; July 20, 2012, and October 12, 2012.

- i. For FY 2012, please confirm that Australia and China should have been assigned to Tier 2 in the FY 2012 Quarterly Updates. If not confirmed, please explain why Australia and China were not assigned to either Tier 1 or Tier 2 in the FY 2012 Quarterly Updates.
 - ii. For FY 2012, please confirm that Spain and France should have been assigned to Tier 2, rather than Tier 1, in the FY 2012 Quarterly Updates. If not confirmed, please explain.
 - iii. Other than Australia and China, please confirm that the FY 2012 Quarterly Updates include all countries or territories that enter EMS in the U.S. If not confirmed, please assign any other countries or territories to either Tier 1 or Tier 2 and, for such countries and territories assigned to Tier 1, please indicate whether they are subject to the EMS Cooperative pay-for-performance plan or any other pay-for-performance plan.
- b. In the response to subpart (b), the Postal Service states that pursuant to the KPG Strategic Services Agreement 2012, KPG members are subject to date-certain delivery performance requirements in which “[l]ate deliveries will result in incurring penalties in the form of a postage refund.”
 - i. Pursuant to Article 10, section A. of the public version of that Agreement, please confirm that a KPG member that submits inbound EMS for entry into the U.S. must, in the event of late delivery by the Postal Service, refund the mailer-paid postage on application by the mailer. If not confirmed, please explain.
 - ii. In the event of late delivery by the Postal Service, please confirm that the Postal Service does not reimburse the KPG member, or is not otherwise ultimately responsible, for the refund of postage to the mailer. If not confirmed, please explain.

- c. In the public version of the KPG Strategic Services Agreement 2012, referenced in the response to subpart (b), Articles 21, 22, 24, 26, 28, 30, 31, 33 and 36 identify certain expenses allocated to KPG members. For the above referenced Articles, please identify where the FY 2012 expenses allocated to the Postal Service are reported in USPS-FY12-NP2 (Revised), Excel files Reports (Booked).xls (Revised 1-14-13) and Reports.xls (Revised 1-14-13).
2. The following questions concern Inbound International Expedited Services.
 - a. Refer to USPS-FY12-NP2 (Revised), Excel files NSA Summary (Booked).xls (Revised 1-14-13) and NSA Summary (Imputed).xls (Revised 1-14-13), and the worksheet tabs Summary in each file. Under both the booked and imputed methods, please explain why costs for the Inbound International Expedited Services 3 product exceed revenues. Also, please describe what steps the Postal Service will take in the future to ensure that revenues exceed attributable costs.
 - b. In Docket Nos. MC2010-13 and CP2010-12, the Postal Service presented a financial model showing that the proposed rates for the Inbound International Expedited Services 3 product, effective in CY 2011 and CY 2012, would cover cost. Please confirm that the financial model is based upon imputed revenues and expenses. If not confirmed, please explain. If confirmed, please explain the causes of the difference between the cost coverage reported for the Inbound International Expedited Services 3 product in FY 2012 under the imputed method and the cost coverage estimated in the Postal Service's financial model.
 - c. Please reconcile the sum of pounds for International Expedited Services 3, International Expedited Services 4, and Residual International Expedited Services shown in the Excel files NSA Summary (Booked).xls (Revised 1-14-13) and NSA Summary (Imputed).xls (Revised 1-14-13),

worksheet tabs Summary with the pounds for Inbound International Expedited Services shown in USPS-FY12-NP2 (Revised), Excel files Reports (Booked).xls (Revised 1-14-13) and Reports.xls (Revised 1-14-13), worksheet tabs A Pages (c), Table A-2 in each file.

3. The following questions concern international negotiated service agreements (NSAs) for Global Plus Contracts.
 - a. Please reconcile the sum of volumes for Global Plus 1B, Global Plus 1C, Global Plus 2B, and Global Plus 2C contracts presented in USPS-FY12-NP2 (Revised), Excel file NSA Summary (Booked).xls (Revised 1-14-13), worksheet Summary, with the total volume for Global Plus Contracts reported in USPS-FY12-NP2 (Revised), Excel file Reports (Booked).xls (Revised 1-14-13), worksheet tab A Pages (c), Table A-2. Also, please show the distribution of the reconciled total among the Global Plus 1B, Global Plus 1C, Global Plus 2B, and Global Plus 2C contracts.
 - b. Please respond to subpart (a), above, with reference to the Excel file NSA Summary (Imputed).xls (Revised 1-14-13), worksheet tab Summary and the Excel file Reports.xls (Revised 1-14-13), worksheet tab A Pages (c), Table A-2.
4. The following questions concern inbound competitive international NSAs for Inbound Competitive Multi-Service Agreements with Foreign Postal Operators.
 - a. In USPS-FY12-NP2, the Excel file NSA Summary (Booked).xls (Revised 1-14-13), worksheet tab Summary, combines the financial results for Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 with the Canada Post—USPS Contractual Bilateral Agreement for Inbound Competitive Services (CP2012-4). The Excel file Reports (Booked).xls (Revised 1-14-13), worksheet tab A Pages (c), Table

A-2, reports these financial results separately. Excluding the financial results for Canada Post—USPS Contractual Bilateral Agreement for Inbound Competitive Services, please reconcile the total revenue, pieces, pounds, volume variable cost, product specific costs (if any), and contribution for Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 shown in USPS-FY12-NP2 (Revised), Excel file NSA Summary (Booked).xls (Revised 1-14-13), worksheet tab Summary with the total revenue, pieces, pounds, volume variable cost, product specific costs (if any), and contribution for Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 shown in Table A-2. Also, please show the distribution of the reconciled totals among the postal operators listed for Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 in the worksheet tab Summary.

- b. Please respond to subpart (a), above, with reference to the Excel file NSA Summary (Imputed).xls (Revised 1-14-13), worksheet tab Summary and the Excel file Reports.xls (Revised 1-14-13), worksheet tab A Pages (c), Table A-2.
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5. The following question concerns International Ancillary Services. In USPS-FY12-1, and the Excel file “Fy2012_RPWsummaryreport_public.xls,” the Revenue, Pieces and Weight (RPW) report presents International Ancillary Services revenues of \$29,332. The RPW report also presents Other International Special Services revenue of \$103. In USPS-FY12-42, and the Excel file “FY12PublicCRA.xls,” worksheet tab Cost2, the Public Cost and Revenue Analysis (PCRA) report presents Total International Ancillary Services revenue of \$30,012. Please explain where the difference in revenue of \$577 (\$30,012 – (\$29,332 + \$103)) is reported in the RPW. Also, please explain the rationale for the difference in the reporting of International Ancillary Services revenue between the RPW report and the PCRA report.

Special Services

6. Please explain the difference in the reported figure for Total Market Dominant Special Services Revenue between the FY 2012 Revised Public Cost and Revenue Analysis Report (USPS-FY12-1) and the FY 2012 Revenue, Pieces, and Weight Report (USPS-FY12-42). Please identify the correct revenue figure and specifically explain what the difference is.

Report	Title	Figure	Cell
Revised Public Cost and Revenue Analysis Report (USPS-FY12-1)	Total Market Dominant Special Services	2,317,473,062	D31
Revenue, Pieces, and Weight Report (USPS-FY12-1)	Total Market Dominant Services	2,336,908,629	D98
Difference		(19,435,567)	

7. The reported costs for Customized Postage in FY 2012 are \$77,252, which is 54.5 percent greater than reported costs for Customized Postage in FY 2011. Please explain the reason for the large increase.

Discover NSA

8. The following table contains the calculation of the Net Value for Contract Year 1 of the MC2011-19 Discover NSA using the Commission's MC2004-3 approved methodology for measuring the Net Value to the Postal Service for Market Dominant NSAs.

A	B	C	D		
1	Discover NSA (Contract Period: April '11 - March '12)				
2	ACR FY2012				
3	MC2004-3 Analysis				
4	<u>First Class Letters</u>				
5	Eligible Volume:		200,235,004		
6	Revenue per Piece:		\$ 0.362		
7	Cost per Piece:		\$ 0.128		
8	Marginal Discount:		\$ 0.013		
9	First Class Mail Regular Elasticity:		(0.392)		
10	<u>Standard Mail Letters</u>				
11	Eligible Volume:		893,490,495		
12	Revenue per Piece:		\$ 0.21		
13	Cost per Piece:		\$ 0.11		
14	Marginal Discount:		\$ 0.003		
15	Standard Mail Regular Elasticity:		(0.437)		
	Total Net Value to USPS:		(4,337,569)		
	Discounts Paid to Discover		5,623,954		
	Net Value Formula				
	$D6 * (1 - (D7 / (D7 - D9))^{D10}) * (D7 - D8) + D12 * (1 - (D13 / (D13 - D15))^{D16}) * (D13 - D14) - D19$				

- a. Please confirm the Net Value to the Postal Service was -\$4,337,569 in Contract Year 1 using the Commission's approved methodology. If not confirmed, please explain.
- b. Please confirm the Postal Service's estimate of the Net Value to the Postal Service of the Discover NSA in Contract year 1 in USPS-FY12-30 is \$23,567,688 to \$25,513,070. If not confirmed, please explain.
- c. Please discuss the differences in methodology between the Commission's approved method and the Postal Service method.
- d. Please explain which method should be used to measure the Net Value of the Discover NSA.

Other Information

9. Please provide the FY 2012 Total Factor Productivity figures and the supporting workpapers.

By the Chairman.

Ruth Y. Goldway